

Message Text

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ACTION SS-30

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 4386

C O N F I D E N T I A L KINGSTON 1174

EXDIS

E.O. 11652: GDS

TAGS: EFIN, EMIN, EIND, US, JM

SUBJ: BAUXITE NEGOTIATIONS

REF: STATE 59793, KINGSTON 940

1. EMBASSY APPRECIATES THE TAXATION RELATED ANALYSIS WHICH LIES BEHIND THE QUESTIONS POSED IN STATE REFTEL, SINCE WE LACK THE INTERNAL CAPABILITY TO PERFORM THIS KIND OF ANALYSIS. HOWEVER, WE WILL DO OUR BEST TO RESPOND TO DEPT'S QUESTIONS.

2. AS INDICATED IN KINGSTON 940, THERE ARE IN FACT BASIC CONTRADICTIONS IN THE GOVTS' OPENING POSITION. BROADLY SPEAKING, THE CLUSTER OF OBJECTIVES THAT ARE PRIMARILY ECONOMIC IN NATURE (INCREASED REVENUES, INCREASED PRODUCTION, GREATER CONTROL OVER FOREIGN EXCHANGE FLOWS, ETC) TEND TO BE IN CONFLICT WITH THE CLUSTER OF OBJECTIVES THAT CAN BE DESCRIBED AS PRIMARILY POLITICAL IN NATURE (PARTICIPATION, LAND USE, EXCESS RESERVES, ETC). HOWEVER THERE ARE ALSO CONFLICTS AND CONTRADICTIONS WITHIN CLUSTERS OF OBJECTIVES--NOTABLY BETWEEN INCREASED REVENUE RATES ON THE ONE HAND AND INCREASED REFINING CAPACITY IN JAMAICA ON THE OTHER. IN ADDITION, IT IS WORTH NOTING THAT THE GOVT'S POSITION PAPER APPEARS TO HAVE SOME OF THE CHARACTERISTICS OF A SHOPPING LIST. THAT IS, ITEMS SEEM TO HAVE BEEN INCLUDED TO PLEASE ONE OR ANOTHER SEGMENT OF OPINION WITHIN THE GOVT WITHOUT MUCH REGARD TO POSSIBLE CONFLICT BETWEEN THEM. FINALLY, IT SHOULD BE NOTED THAT WE ARE NECESSARILY REPORTING SECONDHAND WITH RESPECT TO THE NEGOTIATING MEETINGS THEMSELVES. WE HAVE GONE TO SOME LENGTHS TO GET

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TWO OR MORE ACCOUNTS OF EACH SESSION BEFORE REPORTING, AND IF POS-

SIBLE TO GET VERSIONS FROM BOTH SIDES. HOWEVER GAPS, INACCURACIES, AND APPARENT CONFLICTS ARE BOUND TO OCCUR WHEN WE MUST REPORT AT ARM'S LENGTH. FOLLOWING RESONSES KEYED TO QUESTIONS AS POSED STATE REFTEL:

3. TAXATION:

A. YES

B. WE ARE UNCLEAR AS TO EXACT MEANING OF STATEMENT BEGINNING "ANY SPECIAL ARRANGEMENTS, ETC." BUT ASSUME IT RELATES TO INCOME TAX "RATES" ONLY, NOT THAT GOJ TAX ON ASSUMED PROFIT WOULD BE FINAL LIABILITY. AS WE UNDERSTAND IT, CHIEF REASON FOR DOUBLE TAXATION DISCUSSIONS IS FOR PURPOSE OF ARRIVING AT AGREED BAUXITE TRANSFER PRICE. WE ASSUME GOJ INCOME TAX RATES WOULD REMAIN AT 45 PERCENT AND THAT ESCALATION FEATURES WOULD CONTINUE, BUT HAVE NO ASSURANCE OF EITHER.

C. TAX PROPOSALS SEEM TO REFLECT "VALUE ADDED" CONCEPT RATHER THAN ANY TAX INCENTIVE DIRECTED TOWARD LOCAL AS OPPOSED TO FOREIGN PROCESSING. MANY OF PM'S TAX ADVISERS HAVE BEEN BRITISH, AND GOJ TAX PROPOSALS MAY REFLECT UK CONCEPTS. PROPOSED GOJ REVENUE MEASURES APPEAR TO INCREASE TAX REVENUE BY SIX FOLD OR FOUR TO FIVE FOLD ON TOP OF REVENUE FROM DEEMED PROFIT.

D. ANNUAL DEPRECIATION ALLOWANCE CURRENTLY ALLOWED AS WELL AS DEPLETION, AND REVOCATION OF DEPLETION WOULD PROBABLY NOT QUALIFY COMPANIES FOR INCOME TAX ALLOWANCES NOT PRESENTLY AVAILABLE. REVOCATION OF ALLOWANCE SEEMS TO BE UTILIZED AS TAX RATE EQUALIZER.

E. WE ASSUME SOME PROVISION WILL BE MADE BUT NOE HAS SO FAR.

F. UNDER EXISTING AGREEMENTS COMPANIES PRESENTLY EXEMPT FROM WITHHOLDING TAX LIABILITY, AND WE KNOW OF NO PAYMENTS THEY ARE PRESENTLY MAKING WHICH ARE SUBJECT TO SUCH TAX.

G. YES

H. FROM OUR KNOWLEDGE OF MATALON WE THINK HE CALCULATED BACKWARD FROM 35 CENTS BUT WE AREN'T SURE OF FORMULA AND ASSUME HE USED THAT ESTABLISHED IN GOJ'S POSITION PAPER. MATALON REPORTEDLY ACKNOWLEDGED AT ONE OF MEETINGS THAT GOJ DID NOT CARE HOW THEY GOT IT SO LONG AS THEY GOT IT.

4. EXCHANGE CONTROL:

COMPANIES ARE PRESENTLY EXEMPT FROM FOREIGN EXCHANGE CONTROLS AND SELL FOREIGN EXCHANGE TO LOCAL BANKS TO EXTENT NECESSARY TO COVER LOCAL COSTS.

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5. PARTICIPATION:

AT THIS JUNCTURE WE ARE UNCLEAR AS TO MEANING OF EITHER OF THESE PROPOSALS.

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